

# U.S. TRADE *IN PERSPECTIVE*

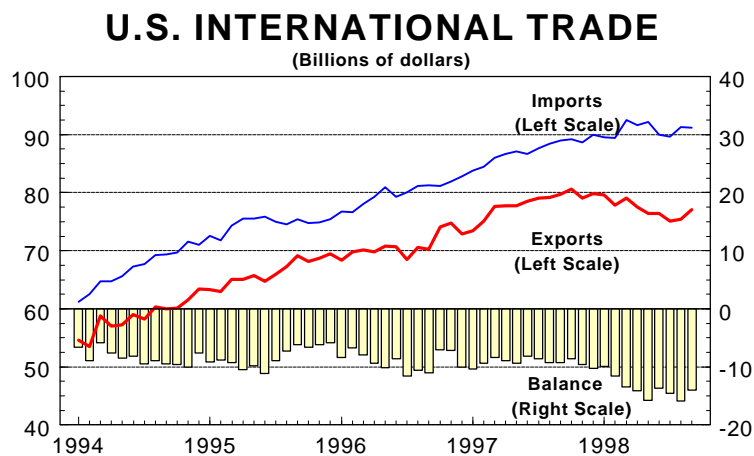
U.S. Department of Commerce, International Trade Administration, Trade Development

December 1998

## U.S. Trade Slows in the Third Quarter, Sets Record for Quarterly Deficit

**Key Developments:** *The monthly goods and services deficit improved in September (aided by strong aircraft exports), but not enough to prevent the third-quarter deficit from sinking to a record low. Slowing global demand, particularly in Asia and the Western Hemisphere have adversely affected U.S. manufacturing exports, and the strong dollar has taken a toll on both manufacturing and service sector exports.*

Exports to Asia continue to weaken, declining in all three quarters of 1998. Exports to the Western Hemisphere started strong in early 1998, but reversed course by mid-year and declined in the third quarter compared to levels a year ago. The dollar was 17 percent stronger in October 1998 than in mid-1995, but has declined over the last several months. The strong dollar has made U.S. exports expensive and imports cheap, contributing to the worsening trade performance.



**1998 Trends:** Due to higher aircraft deliveries, U.S. exports of goods and services rose in September after having declined since October 1997. During the first nine months of 1998, total exports decreased 0.5 percent over the same period a year ago. Imports continued to rise this year, but at a slower pace than in 1997. The rise in U.S. exports in September reduced the monthly trade deficit to \$14.0 billion from last month's record of \$15.9 billion.

- September exports were \$77.1 billion, \$1.7 billion more than in August (revised data). September imports rose \$0.2 billion to \$91.2 billion. Year to date, import growth has slowed to a 4.8 percent gain over the past year, partly as a result of lower oil prices.
- The trade deficit thus far this year has worsened to \$164.1 billion (annual rate) compared with \$109.0 billion for the same period in 1997. (For all of 1997, the trade deficit was \$110.2 billion, averaging \$9.2 billion per month.)

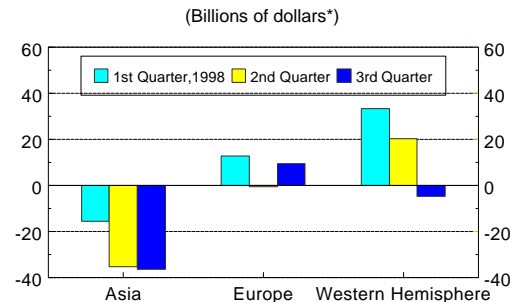


## Regional View: U.S. Export Growth is Strongest in Europe

Third quarter figures show continuing problems in U.S. trade with Asia, a worsening trade balance with the Western Hemisphere and gains in trade with Europe. Most of Asia is in recession, limiting U.S. exports. The value of imports from Asia has grown only moderately. U.S. exports to the Western Hemisphere in the third quarter of 1998 are below levels a year ago. Exports to Europe grew in the third quarter, but imports from the region grew faster.

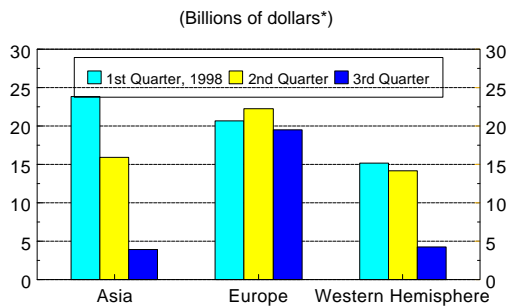
Through the first half of the year, export growth remained concentrated in the Western Hemisphere. In the third quarter, however, exports to the Western Hemisphere declined 1.7 percent from levels a year ago. Exports to Europe, which had stagnated in the second quarter, grew 6.3 percent in the third quarter. U.S. exports to Asia have fallen throughout 1998, dropping 17.2 percent in the third quarter from levels a year ago.

**Dollar Change in Exports by Region**



\*Change in 1998 from the same quarter a year ago, annual rate

**Dollar Change in Imports by Region**

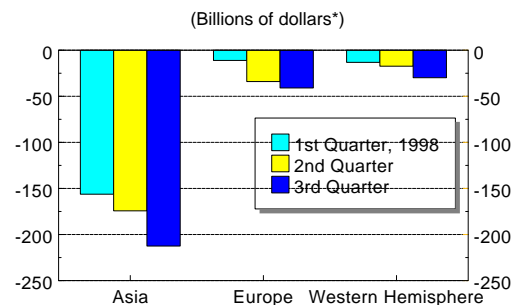


\*Change in 1998 from the same quarter a year ago, annual rate

Imports from Asia and the Western Hemisphere continue to grow, but at a slower pace. Imports from Asia grew one percent in the third quarter of 1998 from the same period a year ago. Imports from the Western Hemisphere grew 1.4 percent and imports from Europe grew 10.7 percent.

The rise in the merchandise trade deficit is primarily the result of a deterioration in the U.S. trade balance with Asia. The trade deficit with Asia in the third quarter totaled \$213 billion (annual rate), compared with \$172 billion in the third quarter of 1997. The U.S. trade deficit with the Western Hemisphere worsened in each quarter of 1998, due to slowing export growth. But compared to levels a year ago, the trade deficit improved in the first and second quarters only to worsen in the third to \$29.6 billion (compared to \$20.6 billion a year earlier). The trade deficit with Europe worsened in the third quarter to \$41.1 billion compared to \$31.2 billion at the same time last year.

**Trade Balance by Region**



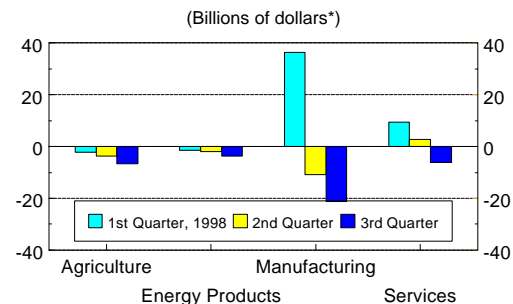
\*Quarterly 1998 data at an annual rate

## Sectoral View: Third Quarter Services Exports Lower than Last Year's

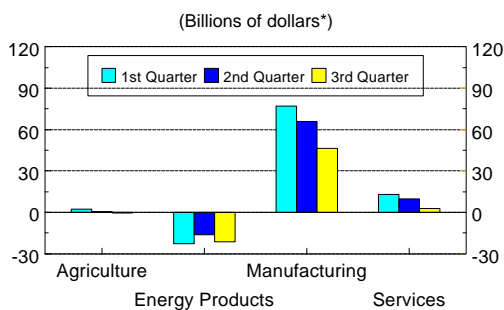
*The bulk of this year's deterioration in the U.S. trade balance stems from declining exports of manufactured goods. In addition, services exports retreated in the third quarter of 1998, reducing the sector's traditional surplus. Prices for oil and other commodities have declined for more than a year. On balance, low prices have had the effect of improving the U.S. deficit in energy products and diminishing the surplus in agriculture.*

In the first quarter of 1998, exports of both manufactures and services rose rapidly compared with levels in early 1997. However, by the third quarter of 1998, the effects of the global slowdown became apparent as exports of manufactured goods dropped 3.6 percent and services exports fell 2.3 percent from a year ago. Declining prices cut the value of U.S. agricultural exports 13.1 percent from a year ago.

### Dollar Change in Exports by Sector



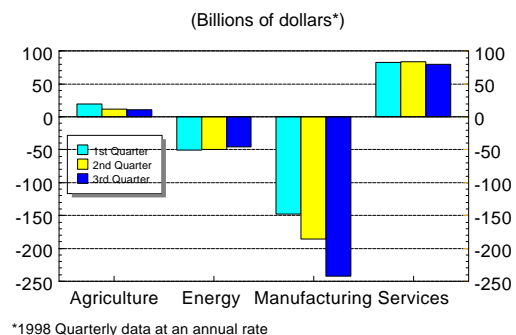
### Dollar Change in Imports by Sector



Imports of manufactured goods and services grew in 1998, but at progressively slower rates. Imports of manufactured goods rose 6.1 percent in the third quarter of 1998 from the same period in 1997. Low oil prices slashed the cost of U.S. imports of energy products. Third quarter energy imports were 27.9 percent lower than during the same period a year ago.

Most of the deterioration in the U.S. trade deficit derives from trade in manufactured goods. In each quarter of 1998, the trade deficit has progressively worsened. By the third quarter, the manufacturing deficit had deteriorated to \$242 billion (annual rate) compared to \$175 billion in the third quarter a year ago. The agricultural surplus had also worsened, falling to \$11 billion compared to \$17 billion a year ago. The surplus in services fell to \$80 billion in the third quarter of 1998 from \$89 billion a year ago. In energy products, however, the U.S. deficit gradually improved through the first three quarters of 1998 to \$45 billion, compared with \$63 billion in the third quarter of 1997.

### Trade Balance by Sector



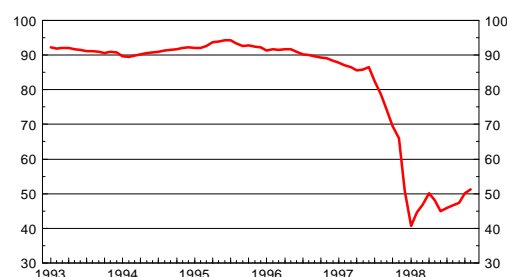
## ***The Asia Factor: U.S. Trade Deficit With the Asian Five Narrows Slightly***

*The U.S. trade deficit with the Asian Five (Indonesia, Malaysia, the Philippines, South Korea, and Thailand) narrowed slightly in September from the month before. The increase in U.S. exports to the Asian Five exceeded a rise in imports, thereby trimming our trade deficit by \$22.7 million in September. The recent improvement in the Asian Five's trade balances with the world and with the United States is due primarily to declines in their imports. The Asian Five's currencies have stabilized after plummeting at the end of last year.*

The Asian Five's currencies in terms of the U.S. dollar have shown continued stability throughout this year. The strengthening of their currencies may be partly due to their growing trade surplus with the world since August 1997. Inflation and interest rates have declined in South Korea, Malaysia, Thailand and the Philippines.

### **Asian Five Exchange Rate**

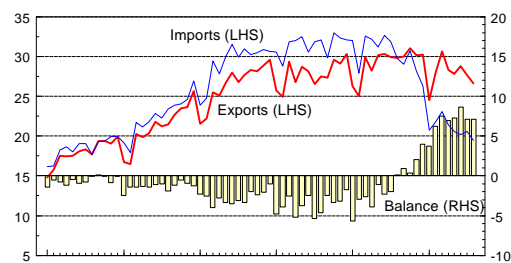
(U.S. dollar per currency)



\* Index (Jan 1990=100)

### **Asian Five\* Trade With the World**

(Billions of dollars)



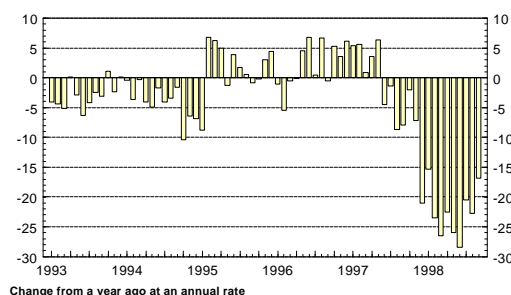
\*Indonesia, Malaysia, Philippines, South Korea, Thailand

Although the Asian Five's exports to the world have risen slightly, their imports have fallen significantly, due to a sharp decline in real income. U.S. merchandise exports to the Asian Five in the first three quarters of 1998 declined 32.4 percent from a year ago, while imports grew 6.1 percent. The U.S. trade deficit totaled \$38.8 billion (annual rate) compared with \$16.3 billion a year ago. The deterioration in the U.S. trade deficit with the Asian Five slowed on a year-over-year basis.

Year to date, the U.S. has trade deficits of \$9.2 billion (annual rate) with Malaysia, \$8.7 billion with South Korea, \$8.4 billion with Thailand, \$7.2 billion with Indonesia, and \$5.3 billion with the Philippines. U.S. exports to South Korea and Indonesia appear to have stabilized at low levels, while exports to Thailand, Malaysia, and the Philippines continue to decline.

### **Dollar Change in the U.S. Trade Balance With the Asian Five**

(Billions of Dollars\*)



Change from a year ago at an annual rate